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NEWS RELEASE

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PSC DROPS APPROVAL OF EKPC DEAL WITH PIONEER ENERGY

Cites financial and operational uncertainties with proposed Clark County plant

FRANKFORT, Ky. (Oct. 18, 2004) - The Kentucky Public Service Commission (PSC) has withdrawn its approval of an agreement by East Kentucky Power Cooperative, Inc. (EKPC) to purchase electric power from the proposed Kentucky Pioneer Energy, LLC generating plant in Clark County.

In an order issued today, the PSC said it was withdrawing the approval because of uncertainty over when the plant would be built and whether it would be able to provide power at competitive prices.

EKPC earlier this month notified the PSC that it has canceled its agreement with Kentucky Pioneer Energy.

Circumstances have changed substantially since the agreement was approved more than four years ago, the PSC said. Kentucky Pioneer's 540-megawatt plant was to be operational in 2004. It is not yet under construction.

When it became clear in 2001 that the Kentucky Pioneer Energy plant would not be completed as originally scheduled, EKPC applied for and received PSC approval to build its own generating facility. That plant, the 268-megawatt Gilbert Unit at EKPC's Spurlock Generating Station near Maysville, is due to begin operations in 2005 and will meet EKPC's near-term power needs.

Kentucky Pioneer Energy was going to be built on EKPC land adjacent to the cooperative's J.K. Smith Generating Station near Trapp. The Kentucky State Board on Electric Generation and Transmission Siting granted a permit for the facility in November 2003, subject to Kentucky Pioneer Energy receiving local planning and zoning approval. It has not yet done so.

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The Kentucky Pioneer Energy plant was to be powered by synthetic gas produced from a combination of coal and pelletized solid waste. The company later proposed to gasify only coal.

“East Kentucky and the Commission had great hope that the Pioneer Project would generate relatively low-cost electricity from Kentucky coal, with minimal environmental impact,” the PSC said in its order. “While we still have that hope, it is clear that there are substantial economic and operational risks that must first be addressed by Pioneer.

“The Commission recognizes the significant level of effort and work that has been expended to date by East Kentucky and Pioneer, and we applaud that effort,” the PSC said. “We encourage Pioneer to refine its technology and business plan so that it will be in a position to bid on future solicitations for power in Kentucky.”

EKPC is a not-for-profit generation and transmission cooperative that provides electricity to 16 electric cooperatives serving a total of about 480,000 customers in Kentucky.

Today’s order, as well as related case documents, are posted on the PSC Web site, which is psc.ky.gov. The case numbers are 2000-00079 and 2003-00030.

The PSC is an agency within the Environmental and Public Protection Cabinet. It regulates more than 1,500 gas, water, sewer, electric and telecommunication utilities operating in the Commonwealth of Kentucky. The PSC has approximately 110 employees.